

# Ask an expert

## Estate tax at \$5 million until 2013

**Q:** I'm confused about the laws regarding taxes upon a death. Is there a minimum exemption? Does it have an expiration date or is it permanent? —**L.G., Apopka**

**A:** The Tax Relief Unemployment Insurance Authorization and Job Creation Act of 2010 set the estate, gift and generation-skipping tax exemption at \$5 million per taxpayer for 2011 and 2012. The exemption levels will be re-evaluated for tax years 2013 and beyond.

—**Larry Breen**



**Q:** I will be receiving an inheritance and wanted to know the best ways to invest it. B.M., Oviedo

**A:** Once you have your cash reserve and debt management in order, consider investing in a diversified portfolio of mutual funds or stocks and bonds according to your risk tolerance. Depending on your federal income tax rate, you might wish to consider investments that could provide tax relief. Lastly, consider investing the lump sum over a period of time, say six or 12 months, to lessen the risk of poor timing. —**Greg Vandergrift**



**Q:** My husband and I are both retired and needed to cash out \$10,000 in our IRA for a home repair. We had \$1,000 withheld. What can we do to minimize our tax liability?— **S.M., Orlando**

**A:** Depending on your tax bracket, that 10 percent may be enough. If not, you have 60 days from withdrawal to put \$10,000 (or part of it) back into the IRA. —**David Jensen**



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## Your Money

# Ask an expert

## Pay off loans before investing

**Q:** I'm a 23-year-old starting a \$40,000-a-year job. I have \$18,000 in student loans and an \$8,000 car loan, both at 7 percent interest. I want to start a retirement fund, but should I pay off my loans first?

**A:** Go after the loans before you put money into a retirement plan because 7 percent is a high interest rate. You will be surprised how fast you can pay debts if you put your mind to it.

**M.W., Orlando**



**Q:** I am 68 and have an IRA with \$104,105 and wish to withdraw \$49,000 to supplement Social Security. Is it more advantageous to take the withdrawal as a lump sum or monthly as an annuity?

**A:** The lump sum will be added to your taxable income unless you execute an IRS code 1035 exchange to an income annuity. A better idea might be to take monthly withdrawals from the IRA.

**E. R., Ocoee**



**Q:** My husband's 401(k) gives the option to pay the taxes now instead of when money is withdrawn. We think this might be good, but being uncertain of where tax rates might go.

**A:** Sounds like your husband's plan offers a Roth 401(k) option. With the uncertainty of tax rates in the future, paying taxes now could be a good strategy. You lose the reduction in taxable income, but future distributions are tax-free.

**Randy Harrison**

**L.G., Kissimmee**



**Bob Rall**

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## Consumer Corner

# Ask an expert

## Deduction in place for 2011

**Q:** Can I still deduct sales taxes in 2011?

**A:** If you itemize, the deduction for sales taxes still applies for 2011. You may want to purchase big ticket items to claim a larger sales tax deduction during this year as the deduction is set to expire the end of the year. However, if claiming the sales tax deduction triggers the alternative minimum tax, you may lose the advantage of this election.

**Paula Taylor**



**Q:** My wife never worked, and we want to change our joint bank account to separated accounts. How should I go about doing that?

**A:** If the account is designated as "joint tenants with right of survivorship" and you wish to have two accounts, I suggest you title the accounts "husband, transfer on death wife" and "wife, transfer on death husband." That way, you would have separate accounts and avoid probate.

**Nancy Hecht**



**Q:** Why do some people wait until they are 70 to collect Social Security benefits when they could start receiving them at 62?

**A:** If you start getting benefits at age 62 your monthly payments will be reduced by 25 percent of what they would be if you waited until full retirement age of 66 and by 43 percent if you hold off collecting benefits until age 70. That difference remains for the rest of your life.

**Richard Almeida**



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# Ask an expert

## Cut expenses to afford insurance

**Q:** I'm going to retire at the end of this year and will have a pension along with Social Security for me and my husband. We're concerned about the cost of long-term care later, but our income will just cover our expenses. What would you advise? I have about \$150,000 in my IRA. — **K.M., Orlando**

**A:** Try to cut expenses to afford the premiums. Otherwise, you'll have to rely on your own resources and-or Medicaid. Medicaid will allow a person to keep \$2,000 of non-exempt assets and the spouse to keep \$109,560 in assets to be eligible. There are also income-eligibility tests. Consult the Florida Department of Children and Families for details. — **John Pinkley**



**Q:** What is an ETF? — **G.L., Longwood**

**A:** An ETF is an exchange-traded fund that combines the diversity of a mutual fund with the ability to trade shares during market hours like a stock. — **Cary Carbonaro**



**Q:** I have heard that I can put \$3,000 each year into an IRA or a Roth IRA. Is that correct? — **C.B., Orlando**

**A:** No, the amount has been increased. If you are under age 50, you can contribute \$5,000 a year. If you are 50 or older, you can add an extra \$1,000 to catch up, for an annual total of \$6,000. — **Dianne Webb**



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Consumer Corner

# Ask an expert

## IRA could offer more options

**Q:** I am 66 years old and still working. I have about \$100,000 in my 401(k) retirement plan. Should I withdraw the funds and put them in an Individual Retirement Account? — **G.K., Lake Mary**

**A:** If your plan allows for it, it might be a good idea. An IRA brokerage account would allow for many more investment options. But make sure you do a direct rollover from one custodian to the other. — **Fred Bremer**

**Q:** Can my creditors take money from my 401(k), trust or IRA? — **J.C., Kissimmee**

**A:** Some IRAs and 401(k)s are protected but may be limited to certain dollar amounts. Depending on the type of trust, you may or may not be protected. Consult with a properly licensed attorney familiar with estate and creditor laws. — **Colby Winslow**

**Q:** I bought my variable annuity in 2007 and it has lost significant value, even with an income rider. If it is a non-qualified (after-tax) annuity and I liquidate it, can I deduct the loss as a long-term capital loss? — **J.Z., Winter Park**

**A:** Unfortunately, you cannot treat an annuity loss, even with after-tax dollars, like you would a stock or mutual fund sold at a loss in a taxable account, where \$3,000 a year can be written off against all income. The loss is subject to the 2 percent of adjusted gross income limit as an itemized deduction. Please consult a tax adviser for further clarification. — **Dennis Nolte**



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## ASK AN EXPERT

# To whittle debt, holster credit cards

**Q:** I have excellent credit, but I have two credit cards with high balances. What is the fastest way to reduce the balances?

— **B.L., Ocoee**

**A:** The fastest way to reduce the balance is to stop using the cards and pay as much as you can each month. Paying only the minimum may not cover the interest that could actually increase your balance each month. You won't be able to cancel the cards without paying off the balance first. — **Derrick Chandler**

**Q:** If I contribute to a Roth 401(k) can I also contribute to a Roth IRA? — **D.L.J., Apopka**

**A:** Yes. If you have earned income and if you are contributing to a Roth 401(k) where you are employed, you are able to contribute to a Roth IRA — subject to the IRS' income limits. — **Dennis Nolte**

**Q:** I work for the government and participate in the Thrift Savings Plan. Most of my funds are in the G Fund (Government Securities Investment Fund) because I don't want to take risk. Is this a good approach? — **L.T.H. Apopka**

**A:** There is no risk-free investment. The principal and interest on the bonds within the G Fund are guaranteed by the government so in that respect the fund is conservative. However, the value of the bonds will change when interest rates change. It would be better to spread your money across multiple funds.

— **John Pinkley**



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# Consumer Corner

## ASK AN EXPERT

### Focus on long term during crisis

**Q:** How do you think the U.S. debt crisis will affect the stock market?

**T.S., Winter Springs**

**A:** You should focus on your long-term plan and not make any sudden move in your portfolio as a reaction to this current event. But as a precaution, you should hold more cash than usual since it might be more difficult to borrow with the downgrade of U.S. debt. For example, keep six months rather than three months of cash on hand.

**Paula Taylor**



**Q:** I'm 48 years old with a 401(k) and hope to retire at age 66 with no debt and \$75,000 annual income in addition to Social Security. How much should I target in my 401(k) at age 66 to provide this income?

**L.H., Orlando**

**A:** The consensus is that a withdrawal rate of 4 percent is reasonably safe to avoid running out of money. Based on that assumption, you would need \$1,875,000 at age 66 to provide \$75,000 annual income.

**Randy Harrison**



**Q:** I am 55 and need to pull funds from my IRA. How should I do it?

**A.J., Altamonte Springs**

**A:** To withdraw from your IRA at age 55 and avoid tax penalties, use the 72T provision to take equal payments for five years or to age 59, whichever is greater. You also can withdraw what you need and pay income tax plus the 10 percent penalty.

**Nancy Hecht**



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ASK AN EXPERT

## Diversified portfolio provides income

**Q:** I have an IRA with 10 mutual funds worth about \$90,000. Where I can invest this money in something somewhat safe but will generate about \$300 per month in income? **T.S., Lake Mary**

**A:** You should have a conservative portfolio diversified for growth and income, comprised of stocks, bonds, gold or silver, real estate and international bonds. You should set up an automatic withdrawal to take out \$300 monthly. **Cary Carbonaro**

**Q:** I have been hearing about good debt, I don't think any debt is good, do you? **P.T., Orlando**

**A:** For most people, their home mortgage is good debt. Most are able to deduct mortgage interest, which helps reduce their tax bill. Also, student loans can be good if they are the only way to afford college and one does not overload on them. **Nancy Hecht**

**Q:** I plan on collecting Social Security in January 2013 when I turn 70. My wife will be 63 and will file for benefits as a spouse. When she stops working, she will file for her own benefits. Is my strategy correct? **B.L.**

**A:** What you are doing is fairly routine. If your wife starts her spousal benefit at 63, she will receive half your benefit but reduced because she is short of her full retirement age of 66. When your wife reaches full retirement age, she will be eligible for her own retirement credits.

**Richard Almeida**



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## ASK AN EXPERT

# Beware this steep IRA penalty

**Q:** I need to begin my required mandatory distribution from my traditional IRA account, but fortunately I don't need the money. Is there a penalty if I don't take it?

**D.G., Apopka**

**A:** Yes. The penalty for not complying is 50 percent of the difference between the RMD and the actual withdrawal taken, in addition to the income tax owed on the actual withdrawal.

**Larry Breen**



**Q:** Can you please explain equity indexed annuities?

**N.C., Winter Park**

**A:** They are tax deferred annuities in which the return each year is related to the returns of stock indexes. There is a cap on the up side, which means the return is limited to the percentage specified in the contract. Conversely, if the returns of the index are negative, the loss is limited to zero, which means it cannot lose value. A primary source of controversy with them is that they usually have higher surrender charges and for a longer duration than traditional annuities, and they are sometimes inappropriately sold when liquidity is important.

**Randy Harrison**



**Q:** My church needs money to upgrade our facility. Is a church bond a viable way to accomplish this?

**J.D., Lake Mary**

**A:** Yes. Many churches across America have paid for construction or refinanced a loan by issuing church bonds. Instead of a fundraising campaign or a bank loan, your church might want to consider a bond.

**David Jensen**



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## Your Money

### ASK AN EXPERT

# See if boss will help with tuition

**Q:** Should I go back to school to get my masters degree even though I will have to take out a student loan? **S.T., 36, Ocoee**

**A:** Before going back to school, first check with your employer to see if they offer any sort of tuition reimbursement to help offset expenses. Depending on the cost, having an advanced degree can be beneficial.

You might also want to consider focusing on specific education or designations available in your current field. **Colby Winslow**



**Q:** Can I benefit from volatility in the markets? **Anonymous**

**A:** Yes. You can buy an exchange-traded fund called VQT, which is the volatility index. But I would only recommend it as a small portion of a well-balanced portfolio. **Cary Carbonaro**



**Q:** As I reach 70, am I forced to start a withdrawal schedule from my IRA? If so, how is the amount and frequency determined?

**D. P., Orlando**

**A:** The required beginning date for required minimum distributions from your traditional IRA is April 1 of the year following the year in which you reach age 70½.

The annual RMD is a function of the size of your IRA and your actuarial life expectancy as determined by the uniform lifetime table, unless a beneficiary is a spouse more than 10 years younger. You can take the amount monthly, quarterly or annually. **Larry Breen**



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## Your Money

### ASK AN EXPERT

# Keep extra cash available

**Q:** I have enough in emergency savings, but would it be better for me to save the income from my part-time job in retirement or apply it towards reducing my mortgage balance? **P.B., Orlando**

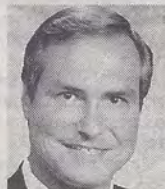
**A:** Paying off your mortgage can provide significant emotional benefits. But makes it more difficult to access the cash in the event you need the additional income during retirement. **Colby Winslow**

**Q:** I am 67 and run a business. If I put \$11,000 in a Simplified Employee Pension IRA, when can I pull out the money? **D.S.**

**A:** Since you are over age 59½, you have access to your SEP funds at any time. **Fred Bremer**

**Q:** I am retired, age 67 and my wife-to-be is 51. Will she collect benefits as my spouse and what percentage? At her own retirement age, will she collect only her own benefits? **D.G., Winter Park**

**A:** If your future wife was born in 1960, her full retirement age is 67. At 67 her benefits will be 50 percent of yours, but if she retires early at 62, her benefit will be reduced to about 35 percent of yours. Unless her benefits are less than 50 percent of yours, she will receive only her own. **Richard Almeida**



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**Your Money**

**ASK AN EXPERT**

# Max out retirement contributions

**Q:** How can we lower our taxes as much as possible? We end up paying every year. **H.L., Orlando**

**A:** Make sure you're taking full advantage of retirement plans. If your employers offer a 401(k), you each may contribute up to \$16,500 pre-tax this year. Those ages 50 or older may contribute up to \$22,000. If eligible, you each may be able to deduct IRA contributions up to \$5,000 and \$6,000 for age 50 plus. **John Pinkley**



**Q:** My husband and I use a credit card that we pay off every month and we have a mortgage that we always pay on time. We were recently turned down for credit because of a lack of credit history. How do I overcome this? **P.M., Winter Springs**

**A:** Get a store credit card and pay it off after making a purchase. Finance a store purchase with a same-as-cash offer. Get increased limits on existing cards. Finally, visit AnnualCreditReport.com to track your credit report. **Paula Taylor**



**Q:** I want to give my car to my daughter. My wife and I own it, and it is worth \$20,000. Will there be any tax ramifications?

**A.Z., Winter Park**

**A:** No, everyone can give away \$13,000 per year per person with no gift-tax ramifications. Since the car is in joint name, you and your wife can give a total of \$26,000 to your daughter without any tax implications. **Dennis Nolte**



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